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ABSTRACT

A staff report to the California Postsecondary Education Commission analyzes the California governor's 1989-90 budget and describes provisions for postsecondary education. Topics of the report are: factors constraining the budget; proposed educational expenditures (for public school expenditures, University of California, California State University, California Community Colleges, Hastings College of the Law and the California Maritime Academy, and California Student Aid Commission); higher education capital outlay; and faculty salaries. It is concluded that: the budget proposes an increase in general fund support of 4.0%, 8.6%, 8.3%, and 0.8% for the University of California, California State University, California Community Colleges, and the Student Aid Commission respectively; there appear to be basic structural flaws in the way the state generates funds to pay for the programs and services it provides; and because the state has only one short-term option, cutting programs for balancing the budget, the debate over funding priorities are particularly intense this year. An appendix presents legislative testimony by Kenneth B. O'Brien, "The 1989-90 California State Budget and Postsecondary Education." Displays are included. (SM)

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ANALYSIS OF THE GOVERNOR'S PROPOSED 1989-90 BUDGET

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

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Summary

This staff report by Kevin Woolfork analyzes the 1989-90 budget for the State of California proposed by Governor Deukmejian and describes its provisions for postsecondary education. Pages 1 through 3 describe the budget in general and the many factors constraining its proposed rate of growth for the 1989-90 fiscal year. Pages 3 through 8 describes the budgets for the University of California, the California State University, the California Community Colleges, and other institutions. An appendix on pages 13-18 contains legislative testimony regarding the 1989-90 budget by Kenneth B. O'Brien, the executive director of the Commission,

On pages 10-11, the report concludes:

> The Governor's Budget proposes for the University of California, the California State University, the California Community Colleges and the Student Aid Commission, an increase in General Fund support of 4.0 percent, 8.6 percent, 8.3 percent, and 0.8 percent, respectively. Enrollment growth at the University and State University is funded, but apparently at the expense of other base-budget programs. The budget provides $6.5 million for the changes specified in AB 1725, parity in University and State University faculty salaries is maintained, and no increases in the level or number of awards are proposed for the Cal Grant program.
>
> There appear to be basic structural flaws in the way the State generates funds to pay for the programs and services it provides. The combination of Proposition 13, Proposition 4, Proposition 98, and other laws that control State revenues is on a collision course with the many laws on the books that guarantee funds for certain entitlement programs, workload-generating State operations, and automatic cost-of-living increases. While higher education has fared better than other State-funded programs in the proposed budget, this structural problem is beginning to touch higher education. In some cases, the segments made gains in proposed funds for new programs, only to find proposed cuts in their base operating budgets.
>
> Because the State has only one short-term option, cutting programs for balancing the budget, the debate over funding priorities will be particularly intense this year. Unless the State changes its revenue and expenditure structure, higher education and other labor-intensive programs funded by the State will decrease significantly from current levels of service as early as the 1990-91 budget.

The Administration and Liaison Committee of the Commission discussed this report at its meeting on March March 6, 1989. Additional copies of the report may be obtained from the Library of the Commission at (916) 322-8031. Questions about the substance of the report may be directed to Mr Woolfork at (916) 322-8025 or to Mr. O'Brien at (916) 322-7986.

Cover photograph by Robert Van Noy.

ANALYSIS OF THE GOVERNOR'S PROPOSED 1989-90 BUDGET

A Staff Report to the California Postsecondary Education Commission

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
Third Floor • 1020 Twelfth Street • Sacramento, California 95814-3985

COMMISSION REPORT 89-14
PUBLISHED MARCH 1989

THIS is one in a series of staff reports on important issues affecting California postsecondary education. These reports are brought to the California Postsecondary Education Commission for discussion rather than for action, and they represent the interpretation of the staff rather than the formal position of the Commission as expressed in its adopted resolutions and reports containing policy recommendations.

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Analysis of the Governor's Proposed 1989-90 State Budget

GOVERNOR Deukmejian's proposed 1989-90 State Budget includes General Fund expenditures of $38.0 billion -- a 5.8 percent increase over spending in the current 1988-89 fiscal year. Total State spending, including special funds and selected bonds, would be $47.8 billion -- a 5.9 percent increase. Display 1 below shows the total funding proposed by the Governor for the State in the upcoming budget year in the ten major categories of expenditure.

The budget is approximately $128 million under the "Gann" appropriations limit. Display 2 on page 2 shows that appropriations limit, the amount of money subject to the limit and the difference between the two for the past ten years.

The proposed budget contains the types of major funding reductions, shifts of funding sources for programs, increased user fees and reduced reimbursements that are controversial in the Legislature and sure to be the object of much debate in the coming months. The budget-year costs of maintaining current-year cost-of-living adjustments (COLAs), salary increases, and workload and enrollment growth consume virtually all of the $2.9 billion in new revenues available. When combined with last April's $1 billion revenue shortfall, the dramatic depletion of the State's emergency reserve fund, and the current-year and budget-year effects of implementing Proposition 98's funding requirements, the outlook is bleak for many State-funded programs. In short,

DISPLAY 1 Proposed Total Expenditures, 1989-90 State Budget (Dollars in Millions)

Program Area	General Funds	Special Funds	Bond Funds	Total State Funds	Federal Funds	Total All Funds
K-12 Education	$14,407.4	$ 644.5	$ 0.2	$15,052.1	$ 1,524.4	$16,576.5
Health and Welfare	11,627.1	812.2	--	12,439.3	10,909.6	23,348.9
Higher Education	5,768.6	47.8	210.7	6,027.1	3,290.2	9,317.3
Business, Transportation and Housing	68.1	2,580.8	150.9	2,799.8	1,828.6	4,628.4
Tax Relief Subventions	893.1	--	--	893.1	--	893.1
Payment to Local Government	0.3	2,765.9	--	2,766.2	32.2	2,798.4
Youth and Adult Correctional	2,301.1	59.2	810.0	3,170.3	1.0	3,171.3
Resources	690.2	503.4	453.9	1,647.5	284.0	1,931.5
State and Consumer Services	271.3	261.5	--	532.8	19.3	552.1
Other	1,982.8	417.3	25.5	2,400.1	596.2	3,021.8
Total	$38,010.0	$8,092.6	$1,651.2	$47,753.8	$18,485.5	$66,239.3

Source: The 1989-90 Governor's Budget.

DISPLAY 2 State Appropriation Limit and Appropriations Subject to It, 1979-80 - 1989-90 (in Millions)

Year	State Appropriation Limit	Appropriations Subject to Limitation	Amount (Over) or Under Limit
1978-79 Base	$12,564	--	--
1979-80	14,195	--	--
1980-81	16,237	$15,535	$ 702
1981-82	18,030	16,872	1,158
1982-83	19,593	16,154	3,439
1983-84	20,369	17,737	2,632
1984-85	21,740	20,822	918
1985-86	22,962	22,467	495
1986-87	24,311	25,449	(1,138)
1987-88	25,201	24,030	1,171
1988-89	27,079	26,935	144
1989-90	29,184	29,056	128

Source: The 1989-90 Governor's Budget.

the proposed 1989-90 State budget does not contain sufficient funds to maintain even current levels of service for many State programs. In fact, were it not for the two-thirds of a $1 billion infusion of new money provided by Proposition 99 (the tobacco tax increase initiative), this fiscal situation would be much worse, particularly for many State-funded yet locally administered human services programs.

Factors constraining the budget

The spending reductions proposed in the Governor's Budget respond to the difference between available State revenues and the amount of money needed to fund current levels of service adjusted for inflation and workload increases. Most fiscal experts now agree that the State's efforts to conform to 1986 changes in the Federal Income Tax Code produced last April's unexpected $1 billion income tax revenue shortfall, thus resulting in a lower rate of revenue growth than anticipated and needed.

According to the Legislative Analyst's Office, the State needs to appropriate an additional $4.5 billion in the 1989-90 fiscal year in order to maintain current programs and to restore the reserve fund to a total of $1.1 billion. However, revenues for the 1989-90 fiscal year will grow by only $2.9 billion. As a result, the State does not have the funds necessary to fully maintain current programs and restore the reserve fund, which has been completely drained by most accounts.

The State is thus faced with a gap of more than $1.5 billion in what is needed to maintain present levels of service, as adjusted by inflation, workload, and new statutory and constitutional requirements. The proposed budget contains several actions to account for the revenue shortage, five of which are briefly described below:

1. Increasing resident student fees and nonresident tuition at the University and State University, for a combined General Funds savings of $38 million;
2. Waiving the State's 1989-90 contribution to the University's pension fund (repaying this obligation over a 30-year period) and suspending the 1989-90 State payment to the State Teachers Retirement Fund, while adopting legislation guaranteeing a higher level of benefits to existing and future retirees, for a combined current year General Fund savings of $272 million;

3. Adopting new, stricter Medi-Cal procedures, eliminating the State's Family Planning Program, maintaining only current-year levels for reimbursement rates to providers of In-Home Supportive (health care) Services, and substantially reducing funding for Medically Indigent Adult services, to produce a combined savings of more than half a billion dollars;

4. Repealing various State mandates to localities, reducing General Fund support for local juvenile justice programs and delaying the opening of two correctional facilities for a combined savings of approximately $150 million; and

5. Requesting legislative action to suspend various statutory health and welfare Cost-of-Living Adjustments, such as the one for Aid for Families with Dependent Children, for a savings of $272 million.

While the Legislature may not concur with all of the specific proposals of the Governor, in the short term, the State has few options for action other than to spend within its means. Over the long term, however, it has more options for action. It may either continue to cut back on the current level of programs in accordance with its revenue limitations and appropriations authority under the "Gann Limit," or it can increase revenues and its constitutional spending authority. Since the Department of Finance estimates that the State has only $128 million in unused spending authority under the appropriations limit for the 1989-90 fiscal year, the State would have to increase its spending authority in order to benefit from any increases in revenues.

Proposed educational expenditures

The Governor proposes a $870 million appropriation to the reserve fund from general revenues plus $230 million from Proposition 98 revenues to restore it to a total of $1.1 billion. He includes a reserve fund of Proposition 98 monies to pay for kindergarten through community college education deficiencies and other educational purposes, and his budget would meet the requirements of Proposition 98 by providing 40.1 percent of General Funds (just over $15 billion) for K-14. He seeks to take back committed but unused funds from the prior and current fiscal years from State agencies to raise more than eighty million dollars for 1989-90 expenditures.

Of the 1989-90 General Fund budget, K-12's share is 37.9 percent or $14.4 billion -- a 6.8 percent increase. Higher education's share is 15.2 percent or $5.8 billion, which is virtually the same proportion as in the current year. The proposed budgets for the higher education segments and the Student Aid Commission are shown in Display 3 at the top of page 4, along with their current budgets and their 1989-90 requests.

Display 4 shows percentage increases in State General funds and full-time-equivalent and average-daily-attendance enrollment for California public education, comparing the proposed 1989-90 budget with the 1980-81 and 1984-85 budgets. While the budget proposes to fund the enrollment growth anticipated for both the University of California and the California State University, the lack of funding for other aspects of the budget undermine this. For the budget year, the State is forced to use many one-time funding sources and special arrangements that will not be available in future years. Even with these proposals the budget does not fund ongoing, baseline costs such as price (inflation) increases, Merit Salary Adjustments, and deferred maintenance. The current and budget-year cuts to the segments' base budgets have the effect of limiting the number of new students they can absorb effectively. The University and State University each stated last Fall that if their base budgets continue to be underfunded, they will eventually be forced unilaterally to limit their future enrollment growth to more manageable levels.

Moreover, the application of enrollment caps for the community colleges and K-12 adult education obfuscates the meaning of "full funding" of enrollment growth, as proposed. Because the State will only fund a predetermined amount of increased enrollment for the community colleges and K-12 adult education, budgeted enrollment quite probably understates the true demand for these services.

Public school expenditures

Total K-12 spending in the budget is $18.9 billion. Included in this budget are:

DISPLAY 3 *Comparison of 1988-89 Segmental General Funds Allocated with Those Requested and Proposed for 1989-90 (Dollars in Millions)*

Segment	1988-89 General Funds Allocated	1989-90 General Funds Requested	1989-90 General Funds Proposed	Percent Increase in Requested Funds	Percent Increase in Proposed Funds
University of California	$1,974.6	$2,191.7	$2,053.5	10.9%	4.0%
The California State University[1]	1,824.4	2,012.6	1,981.4	12.6	8.6
California Community Colleges[2]	2,057.3	2,384.3	2,204.2	15.9	7.1
California Student Aid Commission	134.1	152.0	133.1	13.3	-0.8

Note: The data in the several columns were derived from several sources and are not necessarily reconcilable among the columns.

1. Includes student fee revenues. 2. Includes property tax revenues.

Source: California Postsecondary Education Commission staff analysis of the 1989-90 Governor's Budget.

DISPLAY 4 *Percentage Changes in State General Funds and Enrollment for All Segments of Education, Comparing General Fund Expenditures and Enrollments in 1989-90 with the 1980-81, 1984-85 and 1988-89 Fiscal Years*

Segment	1989-90 Percentage Increase Over 1980-81		1989-90 Percentage Increase Over 1984-85		1989-90 Percentage Increase Over 1988-89	
	Funds	Enrollments	Funds	Enrollments	Funds	Enrollments
K-12 Education	89.9%	15.3%	43.8%	11.6%	7.4%	2.8%
University of California	91.1	19.9	40.9	13.1	4.0	2.8
The California State University	92.1	12.0	41.7	10.1	8.6	2.4
California Community Colleges[1]	77.7	-1.1	55.5	11.0	7.1	2.2

1. Includes local property tax revenues.

Sources: *Governor's Budgets* and Legislative Analyst's Office *Analysis of the Budget* for various fiscal years.

- $380 million for enrollment increases in school districts and county offices of education;
- $519 million for statutory cost-of-living adjustments (COLAs) of 3.21 percent and almost $20 million for discretionary COLAs;
- $140 million for class size reduction, in accordance with Proposition 98, and incentives for local districts to adopt year-round schools; and
- A 2.5 percent increase in funded average daily attendance (ADA) for adult education programs, with most of this increase targeted to providing English as a Second Language services and to assisting GAIN clients.

University of California

The University's General Fund budget is $2.05 billion -- a 4.0 percent increase. Display 5 on page 5 shows the total funding proposed for the University in the budget. Included in this budget are:

- Student fee increases generating a total of 20.3 million -- $12 million from resident student fees (up 10 percent), $7.3 million from out-of-state tu-

DISPLAY 5 *State Funds for the Support of Current Operations of the University of California, Budgeted for 1988-89 and Proposed for 1989-90, with Percentage Increases (Dollars in Thousands)*

Fund	1988-89 Budgeted	1989-90 Proposed	Percent Increase
General Fund	$1,974,622	$2,053,466	4.0%
Lottery Funds	23,732	23,713	--
Other State Funds*	3,000	114,096	na
TOTAL, State Appropriated Funds	$2,001,354	$2,191,275	9.5%
Other (Nonstate) Funds	2,075,313	2,244,120	--
TOTAL, Budgeted Programs	$4,076,667	$4,435,395	8.8%

*For 1989-90, this category includes UCRS funds and $44 million from the cigarette and tobacco surtax fund.

Source: The 1989-90 Governor's Budget.

ition (up 17 percent) and $1 million from the application fee (up 10 percent);

- $4.5 million in increased financial aid related to the increase in resident student fees;
- $21.6 million for a 4.7 percent faculty salary increase, effective January 1990, in addition to fully funding the budget-year costs of the current year salary increase, which goes into effect on June 1;
- $17.8 million for increased undergraduate enrollment of 3,218 full-time-equivalent students and $4.5 million for 900 additional full-time-equivalent graduate students -- an increase in total enrollment of 2.8 percent;
- A spending reduction of $68 million by amortizing the University's retirement contribution for the 1989-90 fiscal year;
- $500,000 to begin the planning and site selection process for proposed new campuses to accommodate increasing enrollment;
- $188 million in State funds for the University's capital outlay program; and
- $43.9 million for University administration of research on tobacco-related diseases from the Proposition 99-created "Research Account of the Cigarette and Tobacco Products Surtax Fund."

The California State University

The State University's General Fund budget is $1.98 billion -- an 8.6 percent increase. Display 6 on page 6 shows the total funding proposed for the State University in the budget. Included in its budget are:

- Student fee increases generating a total of 20.3 million -- $13.6 million from resident student fees (up 10 percent), $4 million from out-of-state tuition (up 21 percent), and $2.1 million from the application fee (up 20 percent);
- $3.3 million in increased financial aid related to the increase in resident student fees;
- $22.1 million for a 4.8 percent faculty salary increase, effective January 1990, in addition to fully funding the budget-year costs of the current year salary increase, which goes into effect on June 1;
- $21.4 million for enrollment of 6,331 full-time-equivalent students -- a 2.4 percent increase;
- A $489,000 increase for disabled students services such as learning disability assessments, tutoring, and disability case management;
- $8.3 million in reductions that will have to be accounted for through increased operating efficiencies;

DISPLAY 6 *State Funds for the Support of Current Operations of the California State University, Budgeted for 1988-89 and Proposed for 1989-90, with Percentage Increases (Dollars in Thousands)*

Fund	1988-89 Budgeted	1989-90 Proposed	Percent Increase
General Fund	$1,824,357	$1,981,365	8.6%
Lottery Funds	38,600	38,600	--
Other State Funds	11,122	5,000	-55.0
TOTAL, State Appropriated Funds	$1,874,079	$2,024,965	8.1%
Other Funds*	79,987	82,878	3.6
TOTAL, Programs	$1,954,066	$2,107,843	7.9%

*Federal Trust Fund and University and College Special Projects Fund.

Source: The 1989-90 Governor's Budget.

- $521,000 for 14 positions to develop a new full-service campus at San Marcos in northern San Diego County; and
- $181.6 million in State funds for the State University's capital outlay program, with $15 million for the construction of a multipurpose facility at the permanent Contra Costa off-campus center.

California Community Colleges

The California Community Colleges' General Fund budget is $1.54 billion -- an 8.3 percent increase. Display 7 shows the total funding proposed for the community colleges in the budget. Included in this budget are:

- $6.5 million for implementation of AB 1725 reforms, including $5 million for staff development and $1.3 million for affirmative action;
- $6.8 million for continued development and partial implementation of a management information system;
- $107.1 million in apportionments for a 4.88 percent statutory cost-of-living adjustment and equalization, and $32.7 million for average-daily-attendance growth within the present statutory limitation of 2.6 percent;
- $320,000 for two "middle college" sites and $1.2 million to continue the three-year "2+2+2" project, both of which are second-year pilot programs;
- $4.1 million for a 4.88 percent discretionary cost-of-living adjustment for EOPS, DSPS, CARE, Matriculation, and Transfer Center programs, and $655,000 for average-daily-attendance growth of 2.26 percent in the DSPS program;
- A $45.7 million projected increase (6.4 percent) in local property tax and student fee revenue, plus total Lottery funds of $113.7 million;
- $15 million for deferred maintenance, with a 50/50 district match;
- $23 million for instructional equipment, with a 75/25 district match; and
- $117 million in combined State local funds for the community colleges' capital outlay program.

Hastings College of the Law and the California Maritime Academy

Display 8 shows the changes in State funding for current operations at Hastings College of the Law and the California Maritime Academy between the 1988-89 and 1989-90 State budgets. For Hastings, the 1989-90 budget includes funds for faculty salary and merit increases equal to that provided for the other higher education systems. Further, $134,000 is provided to improve accommodations for students with disabilities. The budget includes

DISPLAY 7 *State Funds for the Support of Current Operations of the California Community Colleges, Budgeted for 1988-89 and Proposed for 1989-90, with Percentage Increases (Dollars in Thousands)*

Fund	1988-89 Budgeted	1989-90 Proposed	Percent Increase
General Fund	$1,405,201	$1,507,113	7.5%
Local Revenues	652,063	697,114	6.9
Lottery Funds	113,725	113,642	-0.1
Other State Funds	36,294	30,884	-14.9
TOTAL, State Appropriated Funds	$2,207,283	$2,348,753	6.4%
Student Enrollment Fee Revenues	66,263	66,941	1.0
TOTAL, Revenues	$2,273,546	$2,415,694	6.3%

Source: The 1989-90 Governor's Budget.

DISPLAY 8 *State Funds for the Support of Current Operations at Hastings College of the Law and the California Maritime Academy, Budgeted for 1988-89 and Proposed for 1989-90, with Percentage Increases (Dollars in Thousands)*

Institution and Fund	1988-89 Budget	1989-90 Proposed	Percent Increase
Hastings College of the Law			
General Fund	$12,276	$13,111	6.8%
Lottery Funds	217	217	--
TOTAL, State Appropriated Funds	$12,493	$13,328	6.7
California Maritime Academy			
General Fund	$6,547	$6,629	1.3
Lottery Funds	30	30	--
TOTAL, State Appropriated Funds	$6,577	$6,659	0.9

Source: The 1989-90 Governor's Budget.

the continuation of an enrollment reduction in order to meet American Bar Association standards and reduce overall enrollment to 1,200 students by Fall of 1990.

Included in the 1989-90 budget for the Maritime Academy is an increase of $141,000 for the Marine Engineering Technology Laboratory and for other special equipment and needed repairs. Maintenance funding is also provided for student support services at the Academy.

Resident fees and nonresident tuition at both institutions has been increased, consistent with the actions taken for the other public segments.

California Student Aid Commission

The Student Aid Commission's General Fund budget is $133.1 million -- a 0.8 percent decrease from the current budget. Display 9 on page 8 shows the total funding proposed for the Student Aid Com-

DISPLAY 9 *State Funds for the Support of Current Operations of the Student Aid Commission Budgeted for 1988-89 and Proposed for 1989-90, with Percentage Increases (Dollars in Thousands)*

Fund	1988-89 Budgeted	1989-90 Proposed	Percent Increase
General Fund	$134,125	$133,078	- 0.8%
Federal Trust Funds	164,169	159,549	- 2.8
Guaranteed Loan Reserve	25,250	27,165	7.6
TOTAL	$323,544	$319,792	- 1.1%

Source: 1989-90 Governor's Budget.

mission in the budget. Included in its budget are:

- Funding to maintain the current-year level and number of both Cal Grant A and B awards as increased by legislation signed by the Governor last August;
- Funding to maintain the current number and level of Cal Grant C awards; and
- A decrease of $5 million in the amount of money needed to purchase defaulted student loans, as requested by the Student Aid Commission.

This proposed budget does not include funding to increase either the amount or level of awards. Consequently, the percentage of applicants who receive awards will thereby decrease.

Higher Education Capital Outlay

Display 10 on page 10 shows proposed budget-year capital outlay expenditures and sources of funds for the higher education systems in comparison to the current year. Total State funding here is $487 million -- down 24 percent from last year's level of $641 million.

Historically, the proceeds from Tidelands Oil leases was used to fund facilities construction for both secondary and postsecondary education in California. This changed back in 1985, as worldwide oil prices plummeted, and these revenues substantially decreased. Since that time, monies from General Obligation and Special Bonds have become the main source of funding for the segments' capital programs. Eventually, another more stable source of funds will have to be found for these projects, since the State's capacity to enter into bonded indebtedness is not without limit.

Faculty salaries

Display 11 on page 10 shows the parity figures derived for the University and State University during the 1980s and compares those figures with the amounts actually approved by the Legislature and the Governor in State Budgets and with increases in the United States Consumer Price Index for the same years.

In 1965, the Legislature adopted Senate Concurrent Resolution 51, which required the Coordinating Council for Higher Education -- the Commission's predecessor -- to submit an annual report on faculty salary and welfare benefits. The report consists principally of data from the University of California, the California State University, and their respective groups of "comparison institutions" -- colleges and universities similar in size, mission, and function to the University and State University. Through the application of a formula developed by the Commission in consultation with the segments, the Department of Finance, and the Office of the Legislative Analyst, the segments and Commission develop a number known as a "parity percentage" -- a projection of the salary increase required to bring California institutions to the average of their comparison institutions in the forthcoming budget year.

DISPLAY 10 Funds for Capital Outlay at California Public Postsecondary Institutions, Budgeted for 1988-90 and Proposed for 1989-90 (Dollars in Thousands)

Segment and Fund	1987-88 Budgeted	1988-89 Proposed
University of California		
High Technology Education Revenue Bond Fund	$115,385	$90,176
Higher Education Capital Outlay Bond Fund of 1988	121,350	67,822
Public Building Construction Fund	--	30,010
Higher Education Capital Outlay Bond Fund	72,023	--
TOTAL STATE FUNDS	$308,758	$188,008
Federal and Other Nonstate Funds	215,546	23,060
TOTAL FUNDS	$524,304	$211,068
The California State University		
Capital Outlay Fund for Public Higher Education	$18	--
High Technology Education Revenue Bond Fund	216	$38,882
Higher Education Capital Outlay Bond Fund of 1988	105,679	66,400
Special Account for Capital Outlay	683	--
Public Building Construction Fund	32,765	76,359
Higher Education Capital Outlay Bond Fund	75,545	--
TOTAL STATE FUNDS	$214,906	$181,641
Other (Nonstate) Funds	122,930	33,038
TOTAL FUNDS	$337,836	$214,679
California Community Colleges		
Capital Outlay Fund for Public Higher Education	$426	--
Higher Education Capital Outlay Bond Fund of 1988	70,430	$40,731
Special Account for Capital Outlay	272	--
Public Building Construction Fund	$18,025	70,374
Higher Education Capital Outlay Bond Fund	23,569	--
TOTAL STATE FUNDS	$112,722	$11,105
Local (District) Funds	4,827	5,959
TOTAL FUNDS	$117,549	$117,064
California Maritime Academy		
Higher Education Capital Outlay Bond Fund of 1988 (Total Funds)	$280	$467

Source: The 1989-90 Governor's Budget.

As Display 11 shows, during the early 1980s, faculty salary did not keep pace with increases in the cost of living. Though this salary erosion occurred at institutions around the country, California's faculty salaries declined even relative to the other institutions in the comparison groups. Over more recent years, however, healthy salary increases in the budget have substantially improved the competitive positions of University and State University faculty. For example, over the past five years,

DISPLAY 11 Comparisons of Faculty Salary Parity Adjustment Calculations by the Commission with Actual Percentage Increases Provided in State Budgets During This Decade

Year	University of California		The California State University		United States
	Commission	Budget	Commission	Budget	Consumer Price Index
1979-80	12.6%	14.5%	10.1%	14.5%	13.3%
1980-81	5.0	9.8	0.8	9.8	11.5
1981-82	5.8	6.0	0.5	6.0	8.7
1982-83	9.8	0.0	2.3	0.0	4.1
1983-84	18.5	7.0	9.2	6.0	3.7
1984-85	10.6	9.0	7.6	10.0	3 9
1985-86	6.5	9.5	N.A	10 5	2.9
1986-87	1.4	5.0	6.9	6.8	2.7
1987-88	2.0	5.6	6.9	6.9	4.1
1988-89	3.0	3.0	4.7	4.7	4.5 (estimated)
1989-90	4.7	4.7	4.8	4.8	4.7 (projected)

N.A.: No parity adjustment was computed for the State University for the 1985-86 year.

Note: Some of the percentage increases provided in the budget were for a period of time less than a full year. There have been changes in both the University and State University comparison groups over this time, and there was a change in the State University's computation methodology in 1985.

Sources: California Postsecondary Education Commission and the Commission on State Finance.

the University has risen from fifth to fourth place in its full professors' salaries, among the eight universities in its comparison group, and the State University has risen from eleventh to eighth place in total faculty salaries among its 20 comparison institutions. This recovery has helped to increase rates of success for both the University and State University in their national competition for top-flight academic scholars.

Conclusion

The Governor's Budget proposes for the University of California, the California State University, the California Community Colleges and the Student Aid Commission, an increase in General Fund support of 4.0 percent, 8.6 percent, 8.3 percent, and -0.8 percent, respectively. Enrollment growth at the University and State University is funded, but apparently at the expense of other base-budget programs. The budget provides $6.5 million for the changes specified in AB 1725, parity in University and State University faculty salaries is maintained, and no increases in the level or number of awards are proposed for the Cal Grant program.

There appear to be basic structural flaws in the way the State generates funds to pay for the programs and services it provides. The combination of Proposition 13, Proposition 4, Proposition 98, and other laws that control State revenues is on a collision course with the many laws on the books that guarantee funds for certain entitlement programs, workload-generating State operations, and automatic cost-of-living increases. While higher education has fared better than other State-funded programs in the proposed budget, this structural problem is beginning to touch higher education. In some cases, the segments made gains in proposed funds for new

programs, only to find proposed cuts in their base operating budgets.

Because the State has only one short-term option, cutting programs for balancing the budget, the debate over funding priorities will be particularly in tense this year. Unless the State changes its revenue and expenditure structure, higher education and other labor-intensive programs funded by the State will decrease significantly from current levels of service as early as the 1990-91 budget.

APPENDIX

The 1989-90 California State Budget and Postsecondary Education

An Overview by Kenneth B. O'Brien

GOOD afternoon, I am Kenneth O'Brien, executive director of the Postsecondary Education Commission. I'm here to give you our view of the major issues in this year's higher education budget -- a budget that you already know will be a difficult one, and one in which you will face some very difficult choices. We have left with your staff some written materials -- our staff analysis of the budget, a statement of the Commission's priorities for the 1989-90 budget, and a report on our Commission's long-range planning activities -- that give more detail than I will speak to today.

I would like to tell you briefly about what the Commission does and the role we play in the state budget process. The Commission is the state's principal agency for long-range educational policy and fiscal planning for postsecondary education. We participate in the budget process in order to give you our best judgment about how to address the budgetary issues before you. We don't try to duplicate the advice you get from the Legislative Analyst or your own staff, nor do we intend to repeat the specific analysis of the budget that you'll get from the Department of Finance.

The unique role of our Commission is to try to take a long view of the major academic, program, and fiscal issues that will face you in the Legislature with respect to postsecondary education -- not just for this year, but over the next ten to twenty years. In that role, we try to anticipate the major forces that will shape the decisions that you will have to make in order that you receive the best advice we have regarding the direction you should be taking as you make annual decisions about the State's budget.

We recognize that the State's budget is the principal and most powerful vehicle for implementing the State's policy priorities for postsecondary education. And yet in that process we are all frustrated because the budget options available on an annual basis to make or implement policy are necessarily limited. The fiscal constraints that you face prevent you from taking immediate action on your highest policy priorities. In addition, the institutions that we are trying to coordinate are so massive and complex that it is virtually impossible to make significant policy and program changes in one year.

You face a particularly difficult budget this year. It's reminiscent in many respects of the budgets that we saw in the early 1980's. In our opinion, our current problems are even worse than the ones in the 1980's, for the reason that we now have a revenue and expenditure limit problem at a time when we are looking at very large short-and long-term growth needs. In the early 1980's, enrollments were relatively stable, and we had room to grow in most of our educational institutions. Now enrollments are exploding everywhere, and are likely to continue to do so for many years into the future.

If there is a single message I'd like to leave with you today, it's a message about a fundamental conflict between promise and reality -- a conflict that I think we see in this year's budget, and one that's likely to get worse if we are unable to fund the State's legitimate growth needs. This conflict manifests itself most prominently in the way that enrollments are funded in this year's budget: while technically we can say that we funded enrollments, increases have been accompanied in the University and State University with baseline budget cuts, and enrollments are capped once again in the community colleges -- ironically, in the system that is supposed to be an open access system. The increases that were funded this year came from one-time adjustments -- such as with the University re-

Note: This statement by the executive director of the California Postsecondary Education Commission was given to the California Legislature's Assembly Ways and Means Subcommittee #2 on Education on February 28, 1989.

tirement system -- which can't be sustained next year. If we don't do something about getting more money into the educational system, this conflict between promise and real opportunity will get worse. The single most important thing you can do to deal with this conflict is to agree on a constitutional amendment to put before the voters that will address the "Gann" appropriations limit. We hope to help with this effort by giving you the best and most impartial information we can about why some relief from Gann is needed.

Let me tell you briefly now what we think those facts show; the written materials we have given to your staff go into more detail, and I will just give you the short version today. The short version is: long-range enrollment demand will take more money for all parts of public postsecondary education than we think will be available under Gann. We're working now to refine our estimates of probable enrollment demand, but it looks like enrollment-driven budgetary increases for public postsecondary education will average at least 3 percent per year over the next 17 years, independent of new resources needed for program improvements, salaries, or capital outlay.

The long-range estimate of new resources available for expenditure is less than 2 percent a year. This is a problem that pre-dates Proposition 98. What Proposition 98 does for the two University systems is simply to make a bad situation worse, by exposing those two systems to greater risk if there are short-term revenue dips. In order to fund the priority of Kindergarten through community college expenditures under Proposition 98, if revenues are unstable -- which we all know happens from time to time -- then cuts will have to be made elsewhere in the budget, and the two university systems are particularly vulnerable in this type of budget situation.

Given the extreme problems that you face in this year's budget, I will not recommend any augmentations to the budget, since I know that you will be hard-pressed to make them. This is not to say that we believe that the budget is adequate in all aspects, because we do not think that it is, and if additional revenues become available, we'll be back with recommendations about how you can spend them. Assuming that you are not going to be able to make augmentations, and because we don't think that there's much to cut out of the budget, I'd like to mention three priority areas where we hope you can make some progress this year in spite of the budget situation. They are (1) student fee policy, (2) funding of the educational programs under the Immigration Control Reform Act (IRCA), and (3) community college reform. I'll mention each of these briefly:

1. *Student fee policy*

Between 1980-81 and 1988-89, the cost of attending college in California increased more rapidly than the rate of inflation, faster than the rate of growth in faculty incomes, and much faster than the rate of increase in State and federal student grant aid. As a result, we can no longer claim that California is a low-fee state in comparison to other states. We have put together the information in Displays 1 and 2 which shows that -- especially because of the cost of living in this State -- it costs students about as much to attend a public university in this State as in other states. While some would argue that we could increase fees to generate more revenue, we continue to think that this is not the way to go: even if you increase financial aid too many students will still conclude that they can't afford to attend college with high fees.

The State's existing policy on resident student fees for the University and State University helps to contain these costs; we believe this policy has served both students and the State well by instilling a degree of moderation and predictability to fee increases. This allows students and their families to plan and budget for the costs of going to these public universities. While the Governor's Budget proposed a 10 percent increase in resident student fees at both the University and State University, it is clear that the existence of the current policy served to keep the fee increase no higher than 10 percent. The current fee policy will sunset next year, and the Commission is presently collaborating with the interested and affected parties to sponsor legislation being carried by Senator Presley (SB 509) that would maintain this policy. We urge your support for this policy, and request as well that you help maintain it by holding the line on fee increases to those proposed in the budget.

DISPLAY 1 Costs of Attendance at the University of California and Eight Comparable Public Universities, 1988-89

Institution	Tuition and Fees	Books and Supplies	On-Campus Room and Board	Transportation	Other Costs	Total Cost
University of California	$1,577	$480	$4,400	$404	$1,237	$8,098
State University of New York, Buffalo	1,465	650	3,760	700	750	7,325
University of Arizona	1,278	450	2,950	507	1,137	6,322
University of Illinois, Urbana	2,698	350	3,328	364	1,138	7,878
University of Michigan, Ann Arbor	3,170	320	3,975	180	1,024	8,669
University of Oregon, Eugene[a]	1,556	350	2,356	180	810	5,252
University of Texas, Austin	862	420	3,800	505	1,195	6,782
University of Virginia	2,526	500	3,000	n/r	900	7,356
University of Washington	1,797	418	3,448	577	1,273	7,513
Average of above institutions, excluding the University of California	1,919	432	3,328	430	1,028	7,137

a. Figures for 1987-88.

n/r: Not reported, but average cost used in calculating total cost figures.

Source: California Postsecondary Education Commission survey and *The College Cost Book, 1988-89*. The College Board, New York.

2. *Immigration Reform and Control Act (IRCA)*

The urgent need of new immigrants for instruction in basic skills and English as a second language is a particular concern of the Commission and one that in its opinion requires immediate action by the Governor and the Legislature. Under the Immigration Reform and Contrrol Act, more than one million eligible legalized aliens in California wishing to become citizens have only two and one-half years to complete 40 hours of English as a second language instruction or show language proficiency. Federal funds to expand citizenship and English as a second language classes for these purposes are available, but their utilization is restricted because of the State-imposed caps on adult education and agency disagreements between the State Department of Education and the Department of Health and Welfare.

The Commission has recently looked at the adequacy of educational services for these potential citizens. Our major conclusions are:

1. Within California alone, 1.7 million legalized aliens will be eligible for educational services within the next two years.
2. The State may experience a $140 million shortfall in funding for educational services in the current year; and
3. Insufficient courses are available to ensure access in 50 counties, and 20 counties have significant shortfalls, particularly San Bernardino, San Mateo, Riverside, and Alameda.

We believe that you have the opportunity to address some of these funding shortfalls by taking advantage of existing federal resources and putting them to use. We urge you to do everything you can in what we believe is a very urgent situation, and one where the people who are affected will not be able to 'wait until next year' when the budget gets

DISPLAY 2 *Costs of Attendance at the California State University and 14 Comparable Public Universities, 1988-89*

Institution	Tuition and Fees	Books and Supplies	On-Campus Room and Board	Transportation	Other Costs	Total Cost
The California State University	$800	$410	$3,600	$460	$1,125	$6,395
Arizona State University	1,278	450	3,520	n/r	n/r	6,454
Cleveland State University	2,277	400	2,907	250	600	6,434
Georgia State University	1,584	500	n/r	n/r	n/r	6,187
Mankato State University	1,663	400	2,140	222	980	5,405
North Carolina State University	896	450	2,770	300	900	5,316
Rutgers: The State University of New Jersey, Newark	2,611	450	n/r	n/r	1,438	7,728
State University of New York, Albany	1,478	360	3,100	250	650	5,830
University of Colorado, Denver	1,236	415	n/r	n/r	n/r	5,754
University of Maryland, Baltimore County	2,016	400	3,640	278	852	7,186
University of Nevada, Reno	1,200	500	2,400	500	1,100	5,700
University of Texas, Arlington	910	410	3,564	594	900	6,370
University of Wisconsin, Milwaukee	1,915	305	2,574	400	647	5,841
Virginia Polytechnic Institute and State University	2,544	550	2,346	202	900	6,542
Wayne State University	1,895	600	n/r	300	650	6,342
Average of above institutions, excluding the California State University	1,679	442	2,896	330	874	6,221

n/r: Not reported, but average cost used in calculating total cost figures.

Source: California Postsecondary Education Commission survey and *The College Cost Book, 1988-89*. The College Board, New York.

better. If these potential citizens don't get some of the basic courses they will need, they may be deported.

3. *Implementing the community college reforms of Assembly Bill 1725*

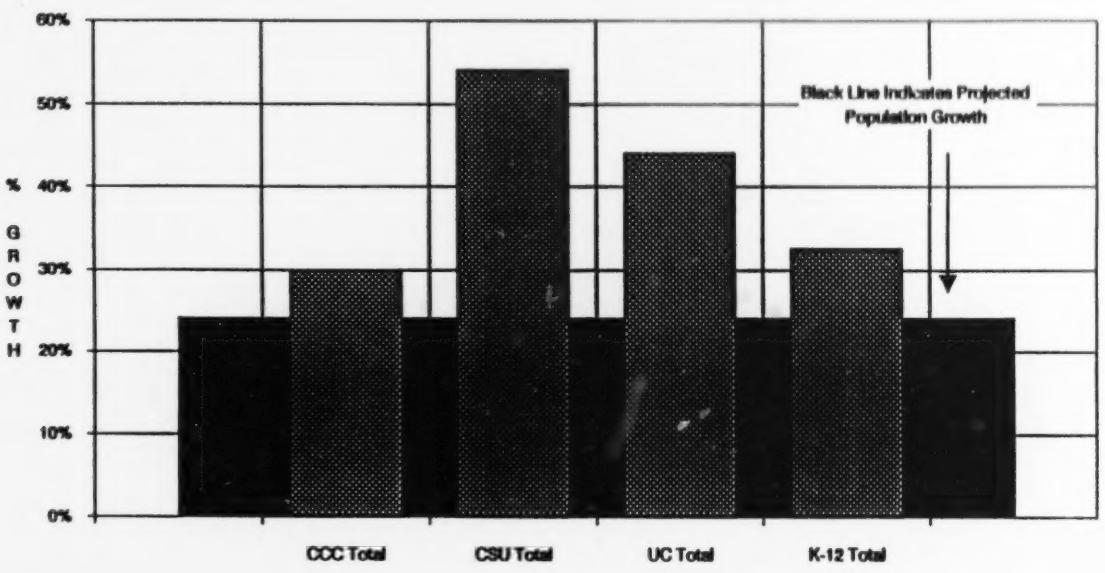
As you may know, the funding needed to complete the reforms of last year's community college reform legislation has not been provided in the budget. The Board of Governors requested $70 million for implementation of reforms this year, however, the proposed budget falls far short of that mark. Although you may not be able to make much progress toward improving this situation in the budget, the discussions about implementation of Proposition 98 may allow you to do so. We are concerned that the genuine budget needs of the community colleges need to be remembered in your discussions about Proposition 98, because the adequate funding of this segment is fundamental to the health and stability of the entire postsecondary sector.

Let me finish by mentioning briefly the work that is now underway in the Commission related to long range planning to accommodate enrollment growth. California will grow at a remarkable pace over the next twenty years, and enrollment demand for postsecondary education will grow with it. We expect that enrollments for all of public postsecondary education will grow between now and 2005 by close to one-third overall, with the Community Colleges and the University of California growing by 31 percent and 44 percent, respectively, and the State University growing by 54 percent during the same period (Display 3 below). In addition to these demographically driven demands, the University plans to substantially expand its graduate enrollments in order to prepare faculty for the future.

Let me tell you how we are planning for these changes. Last year the Commission began a planning process that will culminate at the end of this year with recommendations to the Governor and the Legislature on how the State might accommodate enrollment growth to the year 2005. This effort aims to frame a coherent and truly intersegmental plan for our educational needs. We will look at the growth plans for all of the segments, critically evaluate them, and add them up to examine the statewide picture. We will include an analysis of:

- When traditional campus facilities are academically required and when nontraditional facilities can best meet demands for access and quality;
- The State costs of construction of new space by segment, compared with the costs of renovation or expansion of existing facilities;
- Space and utilization standards for public postsecondary education facilities;
- Year-round operation, and other options, which may serve as alternatives to construction of new facilities;
- How much growth might be accommodated through the independent sector; and
- Priorities for construction of new sites by geographic region of the State.

DISPLAY 3 *Projected Growth in California's Population and in Enrollment in the California Community Colleges, the California State University, the University of California, and Elementary and Secondary Schools to 2005, Indexed to 1968 Levels*



Source: California Postsecondary Education Commission.

In concluding, I would like to leave you with the sense of urgency we place on the resolution of the State's budget problems. The Master Plan for Higher Education gives the promise of access to postsecondary education to the State's population. That promise is gradually slipping from reality. It won't be long before the segments are forced to suspend all enrollment growth due to annual State funding shortages. Although we try in our planning to help prepare for the future, our efforts lack relevance when the present is so riddled with uncertainties about the amount and level of funds available to carry out the missions assigned to the segments by the Masterplan. Comprehensive, long-range planning does not mesh with jerry-rigged, patchwork funding arrangements.

We hope that the legislative and executive branches of State government will develop some consensus to resolve the State's funding problems -- particularly the outdated Gann appropriation limit -- and advocate that consensus to the people of the State. Absent this, you can expect increased and more bitter competition for what will be a gradually shrinking pie of California postsecondary education. Pressure will increase for State policymakers and College and University decisionmakers to advantage some groups -- and thereby disadvantage others -- in admissions policies, the provision of student services and financial aid, intersegmental transfer, and other areas. When it becomes clear that the State of California can fund fewer and fewer of those students qualified for admission, litigation by students can certainly be expected over the basic question of who gets in. Conflicts among historically disadvantaged and other groups over access issues, coupled with inter-institutional disputes over programs and funding, and eventual employee litigation are all probable outcomes if California is forced down the road of continuous "zero sum" budgeting. We can imagine the same thing occurring both within and between other program areas funded by the State.

We stand ready to assist you in the development of a State budget for postsecondary education, and we hope that our suggestions are both helpful and practical ones.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

THE California Postsecondary Education Commission is a citizen board established in 1974 by the Legislature and Governor to coordinate the efforts of California's colleges and universities and to provide independent, non-partisan policy analysis and recommendations to the Governor and Legislature.

Members of the Commission

The Commission consists of 15 members. Nine represent the general public, with three each appointed for six-year terms by the Governor, the Senate Rules Committee, and the Speaker of the Assembly. The other six represent the major segments of postsecondary education in California.

As of April 1989, the Commissioners representing the general public are:

Mim Andelson, Los Angeles;
C. Thomas Dean, Long Beach;
Henry Der, San Francisco;
Seymour M. Farber, M.D., San Francisco;
Helen Z. Hansen, Long Beach;
Lowell J. Paige, El Macero; *Vice Chair;*
Cruz Reynoso, Los Angeles;
Sharon N. Skog, Palo Alto; *Chair;* and
Stephen P. Teale, M.D., Modesto.

Representatives of the segments are:

Yori Wada, San Francisco; appointed by the Regents of the University of California;

Theodore J. Saenger, San Francisco; appointed by the Trustees of the California State University;

John F. Parkhurst, Folsom; appointed by the Board of Governors of the California Community Colleges;

Harry Wugalter, Thousand Oaks; appointed by the Council for Private Postsecondary Educational Institutions;

Francis Laufenberg, Orange; appointed by the California State Board of Education; and

James B. Jamieson, San Luis Obispo; appointed by the Governor from nominees proposed by California's independent colleges and universities.

Functions of the Commission

The Commission is charged by the Legislature and Governor to "assure the effective utilization of public postsecondary education resources, thereby eliminating waste and unnecessary duplication, and to promote diversity, innovation, and responsiveness to student and societal needs."

To this end, the Commission conducts independent reviews of matters affecting the 2,600 institutions of postsecondary education in California, including community colleges, four-year colleges, universities, and professional and occupational schools.

As an advisory planning and coordinating body, the Commission does not administer or govern any institutions, nor does it approve, authorize, or accredit any of them. Instead, it cooperates with other State agencies and non-governmental groups that perform these functions, while operating as an independent board with its own staff and its own specific duties of evaluation, coordination, and planning.

Operation of the Commission

The Commission holds regular meetings throughout the year at which it debates and takes action on staff studies and takes positions on proposed legislation affecting education beyond the high school in California. By law, the Commission's meetings are open to the public. Requests to speak at a meeting may be made by writing the Commission in advance or by submitting a request prior to the start of the meeting.

The Commission's day-to-day work is carried out by its staff in Sacramento, under the guidance of its executive director, Kenneth B. O'Brien, who is appointed by the Commission.

The Commission publishes and distributes without charge some 40 to 50 reports each year on major issues confronting California postsecondary education. Recent reports are listed on the back cover.

Further information about the Commission, its meetings, its staff, and its publications may be obtained from the Commission offices at 1020 Twelfth Street, Third Floor, Sacramento, CA 98514-3985; telephone (916) 445-7933.

ANALYSIS OF THE GOVERNOR'S PROPOSED 1989-90 BUDGET

California Postsecondary Education Commission Report 89-14

ONE of a series of reports published by the Commission as part of its planning and coordinating responsibilities. Additional copies may be obtained without charge from the Publications Office, California Postsecondary Education Commission, Third Floor, 1020 Twelfth Street, Sacramento, California 95814-3985.

Recent reports of the Commission include:

88-45 Prepaid College Tuition and Savings Bond Programs: A Staff Report to the California Postsecondary Education Commission (December 1988)

89-1 Legislative Priorities for the Commission, 1989: A Report of the California Postsecondary Education Commission (January 1989)

89-2 The Twentieth Campus: An Analysis of the California State University's Proposal to Establish a Full-Service Campus in the City of San Marcos in Northern San Diego County (January 1989)

89-3 Toward Educational Equity: Progress in Implementing the Goals of Assembly Concurrent Resolution 83 of 1984: A Report to the Legislature in Response to Assembly Bill 101 (Chapter 574, Statutes of 1987) (January 1989)

89-4 The Effectiveness of the Mathematics, Engineering, Science Achievement (MESA) Program's Administrative and Policy-Making Processes: A Report to the Legislature in Response to Assembly Bill 610 (1985) (January 1989)

89-5 Comments on the Community Colleges' Study of Students with Learning Disabilities: A Report to the Legislature in Response to Supplemental Report Language to the 1988 State Budget Act (January 1989)

89-6 Prospects for Accommodating Growth in Postsecondary Education to 2005: Report of the Executive Director to the California Postsecondary Education Commission, January 23, 1989 (January 1989)

89-7 State Budget Priorities of the Commission, 1989: A Report of the California Postsecondary Education Commission (March 1989)

89-8 Status Report on Human Corps Activities, 1989: The Second in a Series of Five Annual Reports to the Legislature in Response to Assembly Bill 1820 (Chapter 1245, Statutes of 1987) (March 1989)

89-9 A Further Review of the California State University's Contra Costa Center (March 1989)

89-10 Out of the Shadows -- The IRCA/SLIAG Opportunity: A Needs Assessment of Educational Services for Eligible Legalized Aliens in California Under the State Legalization Impact Assistance Grant Program of the Immigration Reform and Control Act of 1986, submitted to the California Postsecondary Education Commission, February 23, 1989, by California Tomorrow (March 1989)

89-11 Faculty Salaries in California's Public Universities, 1989-90: A Report to the Legislature and Governor in Response to Senate Concurrent Resolution No. 51 (1965) (March 1989)

89-12 Teacher Preparation Programs Offered by California's Public Universities: A Report to the Legislature in Response to Supplemental Language in the 1988 State Budget Act (March 1989)

89-13 The State's Reliance on Non-Governmental Accreditation: A Report to the Legislature in Response to Assembly Concurrent Resolution 78 (Resolution Chapter 22, 1988) (March 1989)

89-14 Analysis of the Governor's Proposed 1989-90 Budget: A Staff Report to the California Postsecondary Education Commission (March 1989)

89-15 Planning Our Future: A Staff Background Paper on Long-Range Enrollment and Facilities Planning in California Public Higher Education (April 1989)

89-16 Standardized Tests Used for Higher Education Admission and Placement in California During 1988: The Fourth in a Series of Annual Reports Published in Accordance with Senate Bill 1758 (Chapter 1505, Statutes of 1984) (April 1989)

89-17 Protecting the Integrity of California Degrees: The Role of California's Private Postsecondary Education Act of 1977 in Educational Quality Control (April 1989)

89-18 Recommendations for Revising the Private Postsecondary Education Act of 1977: A Report to the Legislature and Governor on Needed Improvements in State Oversight of Privately Supported Postsecondary Education (April 1989)

89-19 Mandatory Statewide Student Fees in California's Public Four-Year Colleges and Universities: Report of the Sunset Review Committee on Statewide Student Fee Policy Under Senate Bill 195 (1985), published for the Committee by the California Postsecondary Education Commission (April 1989)